



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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December 5, 2008

Mr. John A. Wagner, Director  
California Department of Social Services  
744 P Street, MS 08-17-11  
Sacramento, CA 95814

Dear Mr. Wagner:

**Final Report—California Department of Social Services, Special Review of Controls over Printing Contracts**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its review of the California Department of Social Services' (DSS) policies and procedures specific to the procurement of printing services. This review was performed in accordance with an Interagency Agreement.

The enclosed report is for your information and use. The DSS' response to the reported observations is incorporated into this final report. The DSS agreed with our observations, and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving the current procurement process for printing services.

In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of the DSS staff during this review. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Chikako Takagi-Galamba, Supervisor, at (916) 322-2985.

Sincerely,

***Original signed by:***

David Botelho, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Mr. Robert Garcia, Chief Deputy Director, Administration and Community Care Licensing,  
California Department of Social Services  
Mr. Eric Fujii, Deputy Director, Administration Division, California Department of Social  
Services  
Mr. Kyle Weber, Chief, Management and Staff Services Branch, California Department  
of Social Services

# AS<sup>SPECIAL</sup>R<sup>REPORT</sup>

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## California Department of Social Services Special Review of Controls over Printing Contracts Fiscal Year 2008-09

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE ENGAGEMENT TEAM**

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Supervisor

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This report is available on our website <http://www.dof.ca.gov>

You can contact our office at:

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# BACKGROUND, SCOPE, AND METHODOLOGY

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## **BACKGROUND**

The California Department of Social Services (DSS) implemented changes to its printing procurement procedures. The DSS contracted with the Department of Finance, Office of State Audits and Evaluations, to review DSS' controls over its procurement process for printing services.

## **OBJECTIVES AND SCOPE**

The objective of the review was to assist DSS in identifying and reviewing controls over the printing services procurement process.

This review was specific to DSS' procurement of printing services and does not provide assurance of the adequacy of controls related to DSS' procurement of goods or non-printing services.

## **METHODOLOGY**

To initiate this assessment, we gained an understanding of DSS' mission and critical functions. Through interviews with key staff and review of procedures and policies, the control environment related to prior and current printing procurement processes was documented in flowcharts.

To ensure that DSS' policies and procedures governing the procurement of printing services provided appropriate controls, the following relevant government codes, administrative manuals, and Department of General Services (DGS) memorandums were referenced:

- DGS Purchasing Authority Manual
- California Government Code
- California Public Contract Code
- California Constitution
- State Contracting Manual
- State Administrative Manual

The fieldwork began on October 27, 2008 and was completed on November 17, 2008. The results of the review are discussed in the Results of the Special Review section of this report.

# RESULTS OF THE SPECIAL REVIEW

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The California Department of Social Services (DSS) improved its controls over the procurement of printing services by implementing changes to the printing procurement process. However, the DSS needs to further strengthen the current procurement process for printing services in the following areas:

## **Observation 1**

### **Change Needed in Procurement Procedures**

The Forms Management Unit (FMU), an operational unit within the Business Services Bureau, had control over the procurement for printing services prior to modifications to the procurement process. Our flowchart of the prior procurement process highlights a weakness in controls at key points in the process. Specifically, the FMU supervisor was responsible for approving the bid documents, approving the vendor invoices, and closing out the procurement file. See Exhibit A of this report that documents the prior printing procurement process.

On July 16, 2007, in response to the Department of General Services (DGS) Memorandum 07-06 (Memo 07-06), DSS revised the procurement process for obtaining print services. Memo 07-06 redefined the procurement of printing services from a procurement of goods to a procurement of services, requiring addition justification and review which is specified in Government Code. Further, all printing services must be procured through the Office of State Publishing (OSP). See the Appendix of this report that outlines specific terms and requirements of Memo 07-06.

Under the revised process, the FMU would coordinate the procurement request with OSP. In the event OSP could not fulfill the request, a waiver would be granted and the FMU would notify the requesting program to obtain bids from vendors. After bidding, the program would submit a purchase requisition to DSS' Central Purchasing Unit that would execute the purchase order. See Exhibit B of this report that documents the current printing procurement process. This current process mitigated the control risks associated with the previous lack of proper segregation of duties.

While DSS had improved controls over the procurement of print services, it had not implemented some of the additional controls that are inherent to service procurements. Specifically, the use of a master agreement, the use of DGS approved vendors, and the DGS Office of Legal Service contracts review were not incorporated into the current printing procurement process.

**Recommendation:**

Revise the procurement process for printing services to incorporate the terms of Memo 07-06 and the requirements of Government Code Section 19130. Update the written procurement procedures to reflect these changes.

**Observation 2****Implementation of Procurement Officer Responsibilities**

As noted in Observation 1, oversight of print services was not properly segregated when controlled by the FMU. The July 2007 modifications to the procurement process mitigated the segregation of duties control risk; but failed to identify the additional justification and review requirements that are inherent to the procurement of services.

Section 1.4.0 of the Purchasing Authority Manual (PAM) requires that a Department designate a Procurement and Contract Officer (PCO) who would be responsible for oversight of the Department's procurement activities. While DSS has designated PCOs, there was acknowledgement from DSS that the specificity of the duties outlined in PAM 1.4.0 was not commonly known. We reviewed PAM Section 1.4.0 with DSS' newly designated PCO to ensure that the PCO was aware of the PCO responsibilities as a control over the procurement process.

The use of a PCO to oversee all procurement activities would help to keep control weaknesses from occurring. In addition, exercising the PCO's responsibilities could help DSS minimize risks of non-compliance with purchasing regulations.

**Recommendation:**

Ensure that the designated PCO understands and executes the PCO duties consistent with the terms of PAM 1.4.0.

**Observation 3****No Formal Complaint and Resolution Program**

There is no formal departmental complaint and resolution program in place. The absence of such a program could delay an investigation of employee allegations if improper procurement transactions should be reported. This could negatively impact employee morale and make it less likely that concerned employees would report transgressions.

The initiation of a timely response by management is essential for safeguarding of state assets and maintaining positive staff morale.

**Recommendation:**

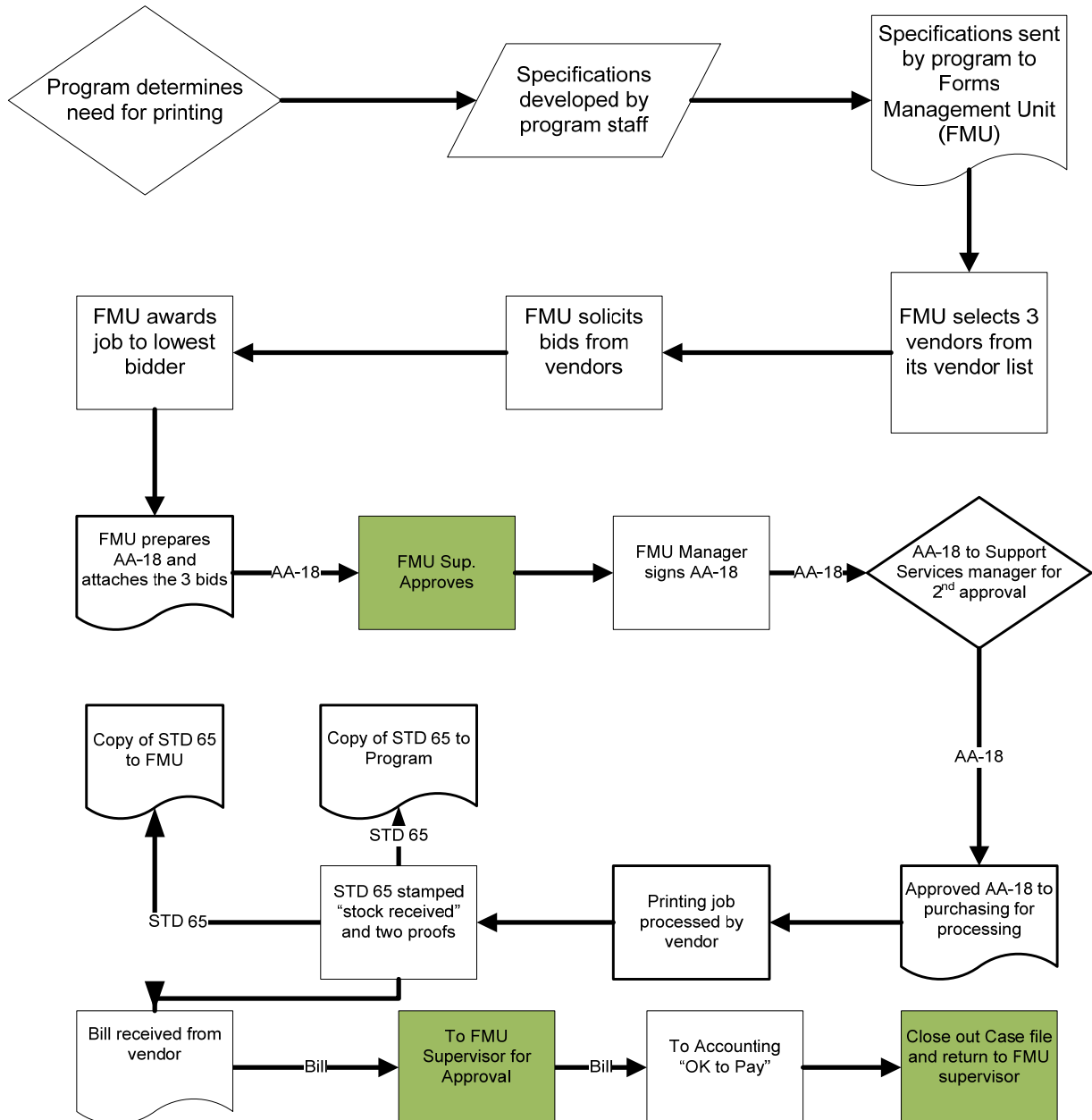
Implement a program where employees can report complaints, fraud, illegal acts, or irregularities to designated management. In addition, implement a formal mechanism for solving problems once they have been reported.

# EXHIBIT A

## PRIOR PRINTING PROCUREMENT PROCESS

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This section of the report documents the prior procurement process for printing services.



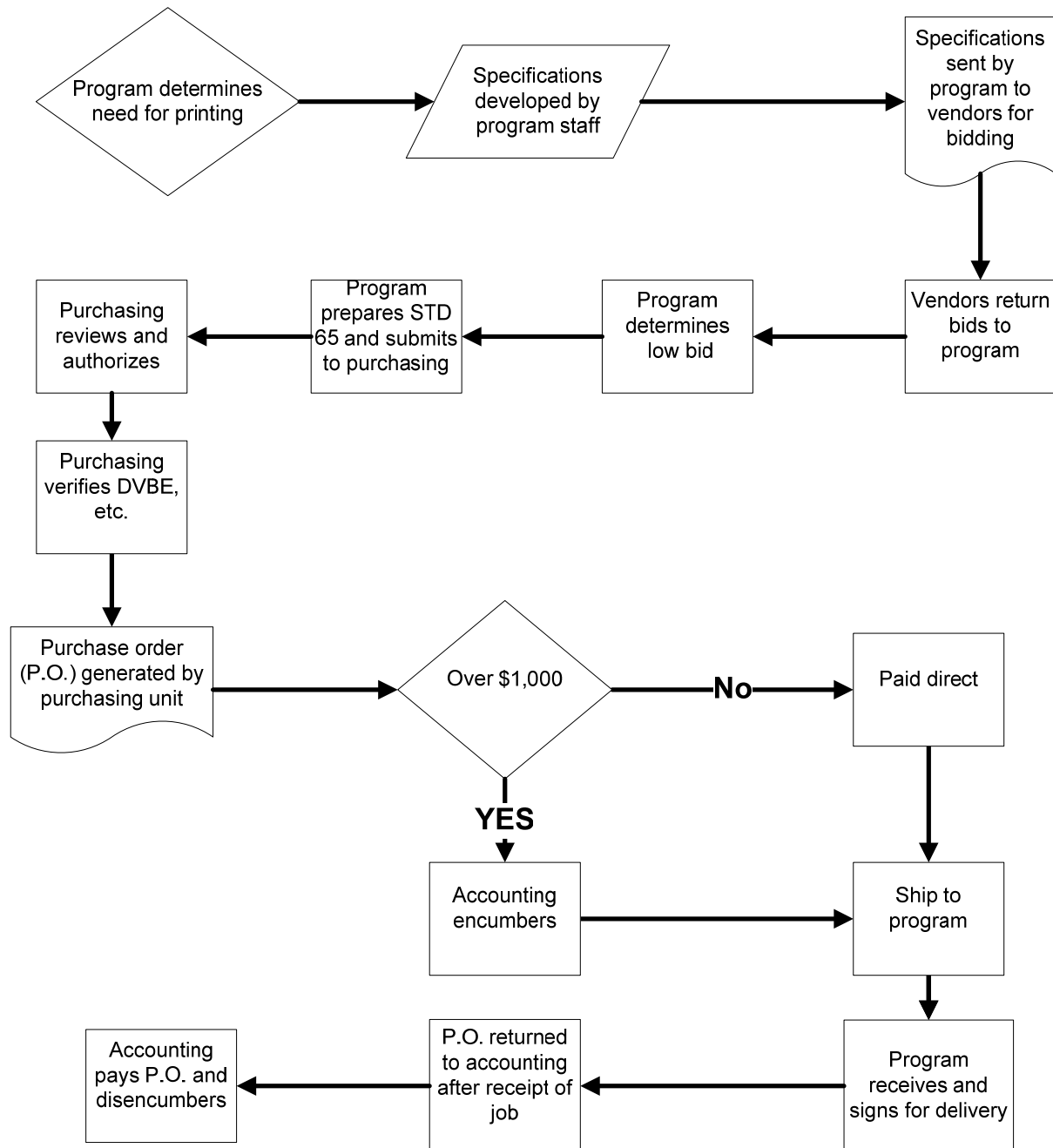
Shaded areas represent control processes that were not properly segregated  
 AA-18: Purchase request  
 STD 65: Purchasing Authority Purchase Order



# EXHIBIT B

## CURRENT PRINTING PROCUREMENT PROCESS

This section of the report documents the current procurement process for printing services.



DVBE = Disabled Veteran Business Enterprise

# APPENDIX

## ACTIONS REQUIRED UNDER

### DEPARTMENT OF GENERAL SERVICES MEMORANDUM 07-06

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Department of General Services (DGS) Memorandum 07-06 redefined the printing procurement process from a procurement of goods to a procurement of services. As a result, all initial procurement requests for printing services must go to the Office of State Publishing (OSP) for fulfillment. Agencies that wish to contract out for printing services must apply either Government Code (GC) Section 19130 (a), demonstrating cost savings, or (b) a series of exemptions specified in GC. If an exemption is authorized by OSP, the following options are available:

- The OSP can direct vend the job to an approved vendor on behalf of the departments and charge a procurement fee to the department. The procurement fee will be waived in cases where OSP initially commits to a printing service and then vends it out due to its own workload constraints.
- Departments can fulfill the procurement with a vendor designated under the Statewide Master Agreement.
- Departments may put the contract out to bid utilizing three of the DGS approved vendors. The resulting contract will be subject to DGS Office of Legal Services review.





JOHN A. WAGNER  
DIRECTOR

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY  
**DEPARTMENT OF SOCIAL SERVICES**  
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ARNOLD SCHWARZENEGGER  
GOVERNOR

December 4, 2008

Mr. David Botelho, Chief  
Department of Finance  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, California 95814

Dear Mr. Botelho:

SUBJECT: DRAFT REPORT – CALIFORNIA DEPARTMENT OF SOCIAL SERVICES,  
SPECIAL REVIEW OF CONTROLS OVER PRINTING CONTRACTS

The California Department of Social Services (CDSS) has completed its review of the Department of Finance, Office of State Audits and Evaluations' special review of CDSS' controls over printing contracts draft report submitted to CDSS on November 26, 2008.

The draft report included three observations and recommendations to which we are providing the following comments:

- **Observation 1 – Change Needed in Procurement Procedures**

**Recommendation:** Revise the procurement process for printing services to incorporate the terms of Memo 07-06 and the requirements of Government Code Section 19130. Update the written procurement procedures to reflect these changes.

**CDSS Response:** We concur with this recommendation. The Department's Forms Management Unit has already made the necessary changes associated with Memo 07-06 and Government Code Section 19130. We are currently revising the written procedures to reflect the changes we have already made. These revised procedures will be completed by January 2009.

- **Observation 2 – Implementation of Procurement Officer Responsibilities**

**Recommendation:** Ensure the designated Procurement and Contract Officer (PCO) understands and executes the PCO duties consistent with the terms of the Purchasing Authority Manual (PAM) section 1.4.0.

Mr. David Botelho  
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**CDSS Response:** We concur with this recommendation. The Department's PCO has been duly apprised of his roles and responsibilities in accordance with PAM section 1.4.0.

- **Observation 3 – No Formal Complaint and Resolution Program**

**Recommendation:** Implement a program where employees can report complaints, fraud, illegal acts, or irregularities to designated management. In addition, implement a formal mechanism for solving problems once they have been reported.

**CDSS Response:** We concur with this recommendation. The Management and Staff Services Branch (MSSB) staff is currently working on establishing a program where employees can report these types of activities. This program will include upper management initiating an investigation into the alleged improprieties and a tracking system to keep records of lodged complaints. The process will be in place by January 2009.

If you have any questions regarding our responses to the draft report, please contact Eric Fujii, Deputy Director of the Administration Division, at (916) 657-3266, or Kyle Weber, MSSB Branch Chief, at (916) 657-2009.

Sincerely,

Original signed by:

JOHN A. WAGNER  
Director